

## Message Text

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12

ACTION ARA-17

INFO OCT-01 AF-10 EUR-25 ADP-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 INT-08

OEP-01 DODE-00 PM-09 H-02 L-03 NSC-10 PA-03 PRS-01

SS-14 USIA-12 T-03 GSA-01 RSR-01 /194 W

----- 104850

R 202116 Z MAR 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3781

INFO AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY LUSAKA

AMEMBASSY KINSHASA

AMEMBASSY PARIS

LIMITED OFFICIAL USE SANTIAGO 1157

E. O. 11652: N/ A

TAGS: EMIN, CI

SUBJECT: POSSIBLE EFFECTS OF RECENT HIGH COPPER PRICES ON CHILE' S  
BOP

PASS OPIC AND EXIM

REF: SANTIAGO A-292 NOTAL

1. SUMMARY: IF HIGH LME COPPER PRICES PERSIST THROUGH 1973,  
CHILE' S COPPER EXPORT EARNINGS WILL SUBSTANTITALLY EXCEED 1972. GOC  
LEADERS, WHILE OBVIOUSLY DELIGHTED BY PRESENT PRICE NEAR 70  
CENT PER POUND, ARE CURRENTLY TALKING IN TERMS OF AVERAGE  
ANNUAL PRICE RANGE OF 55-60 CENTS. EXPORT EARNINGS INCREASE  
RESULTING FROM SUCH PRICES WOULD NOT SOLVE CHILE' S 1973  
BALANCE OF PAYMENTS ( BOP) DIFFICULTIES, BUT WOULD SOMEWHAT  
REDUCE THE GAP. END SUMMARY.

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2. EMBASSY BELIEVES THAT MOST ESTIMATES SUBMITTED IN REPAIR ARE STILL VALID AS BACKGROUND MATERIAL FOR UPCOMING BILATERAL TALKS WITH GOC ON DEBT RESCHEDULING. HOWEVER, COPPER PRICES HAVE INCREASED SO SHARPLY DURING PAST MONTH THAT SOME ADDITIONAL COMMENTS ON 1973 BOP ARE MERITED.

3. CODELCO (COPPER CORPORATION) DATA SHOW 1972 LARGE MINE PRODUCTION OF 593,000 MT (ALL FIGURES IN FINE COPPER EQUIVALENT). RELIABLE EMBASSY SOURCE ESTIMATES 1972 SMALL AND MEDIUM MINES OUTPUT AT 128,000 MT AND TOTAL PRODUCTION OF 721,800 MT. DEDUCTING DOMESTIC CONSUMPTION OF APPROXIMATELY 30,000 MT, EXPORT AVAILABILITIES WERE ABOUT 690,000 MT. WITH AVERAGE 1972 LME PRICE OF 48.5 CENTS PER POUND, CHILE'S COPPER EXPORT EARNINGS (AFTER CONVERSION TO FOB, VARIOUS DISCOUNTS AND SOME BUILDING OF LOCAL STOCKS)

WERE IN RANGE OF \$650 MILLION (VS. \$923 MILLION IN 1969 AND \$863 MILLION IN 1970), APPROXIMATELY 75 PERCENT OF TOTAL MERCHANDISE EXPORTS.

4. RECENT RAPID RISE IN LME PRICE HAS MADE 1973 COPPER PROSPECTS MUCH BRIGHTER. ALTHOUGH DURATION OF PRESENT PRICE LEVEL IS UNCLEAR, IT SEEMS FAIRLY CERTAIN THAT AVERAGE PRICE FOR 1973 WILL EXCEED 1972. EMBASSY ESTIMATES CHILE'S 1973 PRODUCTION WILL VARY LITTLE FROM PREVIOUS YEAR. IF AVERAGE 1973 LME IS IN RANGE OF 55-60 CENTS PER POUND AND CHILEAN COPPER EXPORTS ARE BETWEEN 700-750 MT (INCLUDING APPROXIMATELY 35,000 MT FINE COPPER EQUIVALENT IN FORM OF 100,000 MT SMELTER INTERMEDIATES TO BE MARKETING BY PHILLIP BROS), EARNING WOULD BE BETWEEN \$815-895 MILLION. THIS WOULD MEAN COPPER EXPORT EARNINGS \$165-245 MILLION ABOVE 1972.

5. EXPORT EARNING INCREASE AT LOWER END THIS RANGE WOULD BE HELPFUL TO GOC AND CHILEAN ECONOMY BUT WOULD STILL LEAVE LARGE OVERALL 1973 BOP DEFICIT TO BE FINANCED IN CAPITAL ACCOUNT. SHOULD COPPER EARNINGS REACH NEARLY \$900 MILLION, GOC WOULD BE NO MORE OUT OF FINANCIAL WOODS, BUT 1973 GAP WOULD BE CONSIDERABLY REDUCED. BY KEEPING IN MIND THAT 1 CENT CHANGE IN LME AVERAGE MEANS \$15-16 MILLION CHANGE IN FX RECEIPTS TO CHILE, IT IS EASY TO CALCULATE EARNINGS FIGURES EITHER SIDE OF RANGE USED ABOVE. ON OTHER SIDE OF SCALE, BOP BENEFIT RESULTING FROM LARGER COPPER EARNINGS WILL BE ABSORBED TO SOME EXTENT BY HIGHER 1973 IMPORT PRICES STEMMING FROM DOLLAR DEVALUATION AND OTHER LIMITED OFFICIAL USE

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MARKET FORCES.

6. CHILEAN OFFICIALS, INCLUDING PRESIDENT ALLENDE AND CODELCO VP JORGE ARRATE, HAVE RECENTLY EXPRESSED THEIR DELIGHT AT THE CURRENT PRICE LEVEL BUT HAVE BEEN CAUTIOUS ABOUT PROJECTING IT INTO FUTURE. IN MARCH 12 STATEMENT TO PRESS ARRATE TALKED IN TERMS OF 1973 LME AVERAGE OF 55-60 CENTS. HE ATTRIBUTED HIGHER PRICES TO INCREASES INDUSTRIAL DEMAND, BELGIAN REFINERY STRIKE, ZAMBIAN- RHODESIAN BORDER PROBLEM, STOCKPILING BY CONSUMERS, UNCERTAINTY ABOUT CHILEAN DELIVERIES DUE TO " EMBARGO" AND US DEVALUATION.  
DAVIS

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